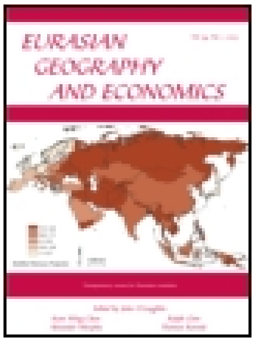

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Financing the Belt and Road Initiative

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ABSTRACT

The Belt and Road Initiative (BRI) has attracted the involvement of increasing numbers of countries in the world, but also caused a lot of concerns about its financing given its sheer size. This commentary first gives a brief introduction to China's financial resources for the BRI after an analysis of the initiative's geographical scope, including an estimation of the financial resources already mobilized for the BRI, major financial institutions in China and distribution of outstanding loans in countries along the Belt and Road among these institutions, and then it provides a preliminary outline of some BRI financing models. It argues that developing an appropriate financing model is critical for the success of the BRI, but good financing can only be explored and achieved through good financial practices, which means that China has to strengthen financial cooperation with host countries and international financial institutions. These practices will open up an interesting area of study for geographers.

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The Belt and Road Initiative (BRI hereafter) is considered a new platform for international cooperation, which was put forward by the Chinese government but has been recognized by, and secured the involvement of, more and more countries in the world (Liu, Dunford, and Gao 2018; Dunford and Liu 2019). By August 2019, 136 countries and 30 international organizations had signed memoranda of cooperation or issued joint statements with China on jointly building the Belt and Road. At the core of the BRI are the principles of *openness and inclusiveness, deep negotiation, joint construction and shared benefits* as well as a quest for coordinated development and common prosperity by reinforcing inter-governmental cooperation, especially economic policy and development strategy connection. From a Chinese initiative to the development of an international cooperation platform, the scope of BRI has been enlarged and its concrete construction forms have been and continue to be explored. No matter how its scope is defined, the BRI is a titanic global enterprise with a vision of common prosperity and a shared future. Given the sheer size of the BRI, there

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have been wide concerns about its financing, as it may involve investments of trillions of US dollars. Against this background, in this commentary we shall present a very brief introduction to the scope of BRI and the financial resources that China has mobilized in support of this initiative as well as a number of financing models.

Defining the scope of the BRI

The question of the geographical scope of the BRI is one that generates most concern in China and abroad. In essence, the BRI is an open and inclusive initiative, which means it is open to all interested countries and regions and there is no pre-defined list of countries or places. While acknowledging this feature, in order to study the BRI, there is a need to identify some spatial attributes. At present, a group of 64 countries is widely used in many academic studies and in official news reports dealing with the BRI (Liu 2019; see Table 1). This list comprises countries that lie along the ancient Silk Roads but excludes developed Western Europe, so that these countries are customarily called countries along the Silk Roads (i.e., the *Silk Roads countries*). Taking into account the historical origins of the ancient Silk Roads and levels of national development, these countries were expected by the Chinese government in the early days to be the most likely participants in Belt and Road construction. So far, the vast majority of these countries have signed BRI memoranda of cooperation with China.

In addition to this list, there is a much longer list of countries used when talking about the BRI, that is the countries that have signed memoranda of cooperation or issued joint statements with China. By August, 2019, as mentioned above, this list included 136 countries, but the Chinese government has never made this list public. According to various public news reports, about 90 percent of the 64 Silk Roads countries are included in this longer list, while nearly 50 countries in Africa

Table 1. A list of Countries along the silk roads.

Region	Countries
Central Asia	Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, Turkmenistan
Mongolia and Russia	Mongolia, Russia
Southeast Asia	Vietnam, Laos, Cambodia, Thailand, Malaysia, Singapore, Indonesia, Brunei, Philippines, Myanmar, Timor-Leste
South Asia	India, Pakistan, Bangladesh, Afghanistan, Nepal, Bhutan, Sri Lanka, Maldives
Central and Eastern Europe	Poland, Czech Republic, Slovakia, Hungary, Slovenia, Croatia, Romania, Bulgaria, Serbia, Montenegro, Kingdom of Macedonia, Bosnia and Herzegovina, Albania, Estonia, Lithuania, Latvia, Ukraine, Belarus, Moldova
West Asia and the Middle East	Turkey, Iran, Syria, Iraq, the United Arab Emirates, Saudi Arabia, Qatar, Bahrain, Kuwait, Lebanon, Oman, Yemen, Jordan, Israel, Palestine, Armenia, Georgia, Azerbaijan, Egypt

Note: Although most Western European countries lie along the ancient Silk Roads, they are not included in this table because they are developed economies and were not considered the focus of Belt and Road construction in the very beginning. At present, the BRI is open to any interested countries to participate.
Source: (Liu 2019)

and over 30 countries in Latin America and the South Pacific can be added to it. These countries are called countries co-building the BRI (i.e., the *BRI countries*). Although Belt and Road construction has expanded far beyond the ancient Silk Roads' regions, China's official statistical data on the BRI are generally confined to the 64 Silk Roads countries while the construction projects mentioned by the Chinese government and official media are from a broader area, i.e. the BRI countries. In the following sections, we shall follow these same rules in presenting statistical data and BRI projects.

The question as to what is a BRI project is another concern of all those studying or interested in the BRI. There is no official answer to this question yet, but in official documents and news reports *BRI projects* are often mentioned. Broadly speaking, all China-related projects in the BRI countries, whether they are Chinese foreign direct investments (FDI) and Chinese-financed projects or other types of international cooperation project, should be considered as BRI projects. Narrowly defined, only those projects derived from or included in cooperation/dialogues between China and the BRI countries can be identified as BRI projects because reinforcing inter-governmental cooperation is a key feature of the BRI and these projects involve more complicated and innovative financing structures than do traditional FDI projects.

China's financial resources for the BRI

Basically, there are five types of financial resources in China supporting BRI construction. They are pure aid, preferential loans, development finance, commercial loans and various special funds. China's pure aid volume is small, amounting to some US$ 7 billion each year with around half of it going into the Silk Roads countries. The preferential loans include concessional government loans and preferential export buyers' credits, and both require sovereign guarantees as in the case of all other countries. The duration of this type of Chinese loan is up to 20 years and the annual negotiation-dependent interest rate is about 2 percent. In China, preferential loans are available only from the Export-Import Bank of China (CEXIM), and are estimated to be around US$ 10 billion per year on average. Development finance is a major source for infrastructure development in China and for BRI construction as well. At present, the annual interest rate is about 3–4 percent and duration can be up to 20 years.

Besides the three above-mentioned sources of finance and commercial loans, China has set up more than 20 special funds to finance the BRI. These funds amount to over US$1500 billion. Among them, the most famous is the Silk Road Fund (SRF), established in 2014 with a focus on promoting infrastructure connectivity, natural resources development, industrial cooperation and financial cooperation. The SRF was initially capitalized at US$ 40 billion with the State Administration of Foreign Exchange (SAFE), China Investment Corporation, CEXIM and China Development Bank (CDB) accounting for 65 percent, 15 percent, 15 percent and 5 percent

respectively of total capital, but it got further capital injection of RMB 100 billion from the Chinese central government in 2017. In addition, China has developed more than 10 international financial cooperation agreements with other countries or international organizations, e.g., China-ASEAN, China-Arab, China-ECE (Eastern and Central Europe), and SCO (Shanghai Cooperation Organization) Interbank Consortiums. It should be noted however that many large BRI projects involve all the above-mentioned financing tools, i.e. a mixture of financial resources with different parts of a project using different financing tools.

By 2018, the stock of China's FDI in the Silk Roads Countries was US$173, only 8.7 percent of China's total outward FDI stock. Of this stock, about 55 percent pre-dated the announcement of the BRI in 2013. By that date, the estimated outstanding loans of Chinese banks in the Silk Roads countries amounted to US $ 350 billion. This estimate includes both loans for foreign direct investment by Chinese firms and loans to other countries. There is however no official data on the structure of these loans. Given the difficulties Chinese firms face in getting domestic loans to invest abroad, we estimate that loans to Chinese firms account for no more than two-thirds of China's FDI stock, suggesting that about 66 percent (US$236 billion) of the outstanding loans of Chinese banks in the Silk Road countries was made to sovereign institutions or firms in these countries.

Although the BRI studies pay a great deal of attention to the Asian Infrastructure Investment Bank (AIIB) and the SRF, they are not the main source of loans for BRI construction (Figure 1). By 2018, the outstanding loans of these two institutions in the Silk Road countries was only US$ 8 billion and US$ 11 billion, respectively, or 2.3 percent and 3.2 percent of the total. CEXIM and CDB are the two major players, accounting for 40.0 percent and 31.5 percent of

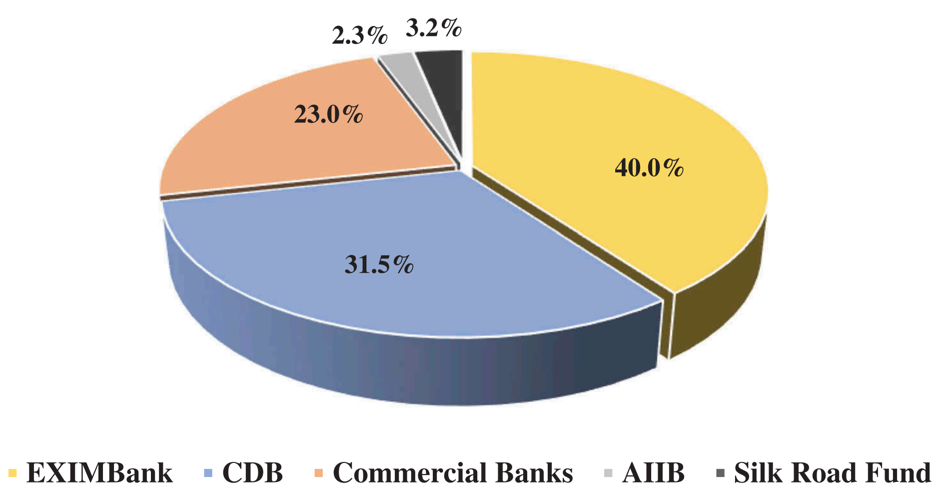

Figure 1. Distribution of China's outstanding loans in countries along the Belt and Road by financial institution.

total outstanding loans, respectively (Figure 1). CDB is ranked as the largest development bank in the world with total assets of US$ 2,357.5 billion (Table 1). By 2018 its outstanding loans in the Silk Roads countries stood at about US$ 110 billion, while those of CEXIM reached about US$ 140 billion. The other large component (23.0 percent by 2018) came from four major state-owned commercial banks, i.e. Industrial and Commercial Bank of China (ICBC), China Construction Bank (CCB), Agriculture Bank of China (ABC) and Bank of China (BOC). See Table 2 for basic information about these banks.

Although the volume of financial resources mobilized in China for the BRI is not small, it is far from sufficient compared to the huge demand for investments in the BRI countries, in particular in the field of infrastructure development. Thus, China has to further develop financial cooperation with other countries and other international organizations to co-finance suitable BRI projects, as it has already started to do in the last few years. Indeed, the BRI is not exclusively about Chinese investments but a new platform for international cooperation, including financial cooperation.

A glance at BRI financing models

Geographical studies of FDI seldom considered financing issues in the past. If the horizons are expanded to a broader area of overseas construction projects

Table 2. Major financial institutions involved in the BRI (2018).

Bank Name	Total Asset (US$ Billion)	Equity Structure: Shareholder	Equity (%)	Key Feature
AIIB	19.6	100 approved members from all over the world	NA	The 2nd largest global membership after the World Bank.
CDB	2,357.5	Ministry of Finance of China	36.54	The world's largest development finance institution.
		Central Huijin Invest. Ltd.	34.68	
		Buttonwood Invest.	27.19	
		China National Council for Social Security Fund	1.59	
CEXIM	611.2	Buttonwood Invest.	89.26	The only state policy bank offering preferential loans in China
		Ministry of Finance of China	10.74	
ICBC	4,036.0	Central Huijin Investment Ltd.	34.71	Ranked 1st in the list of world banks published by The Banker in 2019.
		Ministry of Finance of China	34.60	
		Hong Kong Securities Clearing Company Ltd.	24.41	
		Other institutions	6.28	
CCB	3,383.7	Central Huijin Invest. Ltd.	57.11	Ranked 2nd in the list of world banks published by The Banker in 2019.
		Hong Kong Securities Clearing Company Ltd.	36.79	
		China Securities Finance Co., Ltd.	0.88	
		Other institutions	5.22	
ABC	3,294.3	Central Huijin Invest. Ltd.	40.03	Ranked 3rd in the list of world banks published by The Banker in 2019
		Ministry of Finance of China	39.21	
		Hong Kong Securities Clearing Company Ltd.	8.73	
		Other institutions	12.03	
BOC	3,098.7	Central Huijin Invest. Ltd.	64.02	Ranked 4th in the list of world banks published by The Banker in 2019
		Hong Kong Securities Clearing Company	27.82	
		China Securities Finance Co., Ltd.	2.92	
		Other institutions	5.24	

Sources: official websites and annual reports of banks

like BOT (build-operate-transfer), PPP (public-private partnership) and EPC (engineering- procurement-construction), however, we will find that the financing structure of projects has important geographical implications as it may affect the degree of territorial embeddedness of the firms involved in them (Liu and Yao 2020 forthcoming). Indeed, a concern with financing models will open a door for geographers to step into a new and exciting area of study.

While BRI construction often involves the use of traditional financing models, China is also trying to explore new financing models. Time is, however, too short to have an in-depth and systematic study of the emerging models. One reason, as argued by the World Bank experts, is that relatively little systematic data exists on the practices of the different, primarily Chinese, entities that finance BRI-related contracts (Ghossein, Hoekman, and Shingal 2018). A preliminary study found that China tends to adopt tied commercial financing, favors heavy government involvement, focuses on physical infrastructure and industrialization, and shows respect for host-country governance (Yang 2019), while another study argues that the AIIB has used a streamlined procedure in terms of procurement, economy and risk analysis, supervision and safeguard policy (Zhao, Gou, and Wanying 2019). In the following, we shall provide a very preliminary outline of some BRI financing models.

Besides traditional FDI projects in which firms directly invest in host countries, mainly in the fields of manufacturing and mining, many Chinese firms are involved in BRI construction in the form of EPC and BOT and in a few cases of PPP. EPC projects are generally not of geographical interest. Their geographical significance increases however if EPC contractors are required to help operate the projects. The model of EPC plus operation (EPC+O) means contractors have to be embedded more deeply in the host countries. Examples of such a model are the Mombasa-Nairobi railway in Kenya (Wang 2020b forthcoming) and the Addis Ababa-Djibouti railway in Ethiopia and Djibouti (Wang et al. 2020a forthcoming). BOT and PPP are essentially based on a concessional contract with the host country government. A BRI example is the Karot Hydro-Power Plant in Pakistan. In this case the project is owned by a joint venture company. This Joint venture involves China Three Gorges International Corporation, SRF and the International Finance Corporation (IFC) of the World Bank group, received a 50-years concessional contract from the Pakistan government and obtained loans from CEXIM, CDB, IFC and SRF (Figure 2).

The influence of international financial cooperation including contractors' behavior on BRI construction is another interesting topic in the study of BRI financing models. Contrary to the claims of many critics, China is keen to foster third-party cooperation in developing and financing BRI projects because the market is so huge that no single country can fill it. Indeed, a number of developed economies like Japan, Germany, France and Singapore have expressed an interest in co-financing BRI projects. In the above-mentioned Karot Hydro-Power Plant, for example, IFC is a major partner of Chinese financial

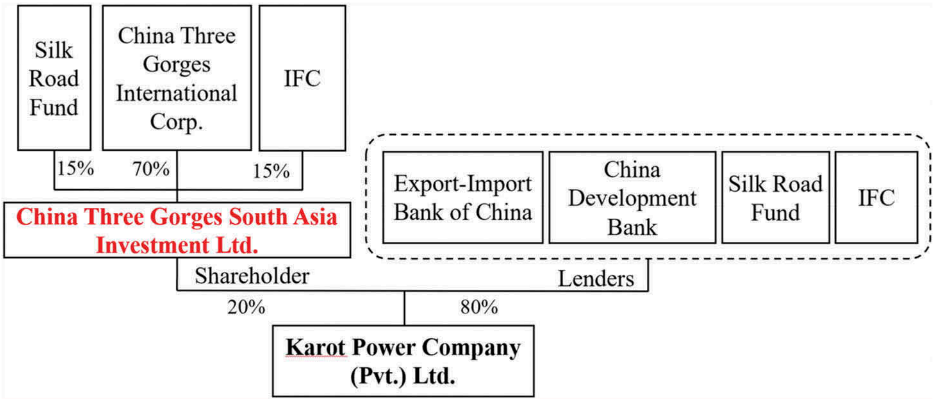

Figure 2. Financing model of the Karot Hydro-Power Plant in Pakistan. (Source: Liu and Yao, 2020 forthcoming)

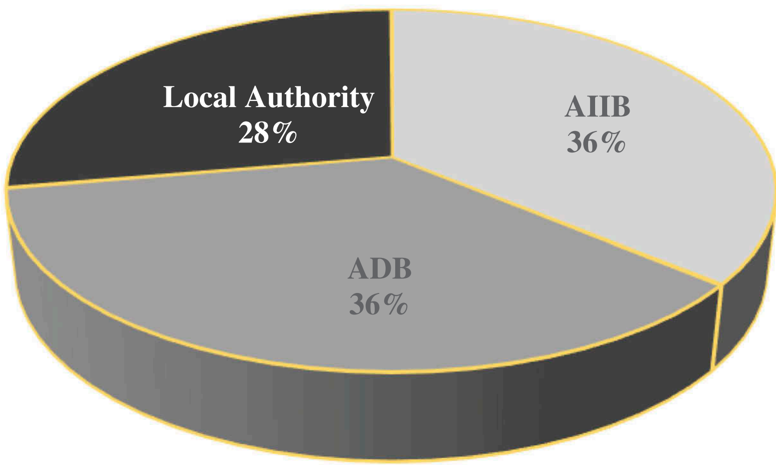

Figure 3. Financing structure of a highway project in Georgia. (Source: Yao, Jiang and Xiao, 2019)

institutions and firms. Figure 3 indicates that the AIIB and Asian Development Bank co-operate in financing a highway project in Georgia although many critics consider that these two banks are rivals.

Concluding remarks

The development of an appropriate finance model is critical for the success of the BRI in the sense of benefiting all stakeholders including China and host countries, as these models relate to practical issues like the returns on the capital of Chinese and other investors, host-county debt and the organization and operation of projects. This need is becoming increasingly important in the face of the rise of a meme claiming that China engages in debt-trap

diplomacy. Although the aspects of certain BRI projects that are said to involve debt-trap diplomacy have been shown to be false (Brautigam 2019), the existence of this issue calls for debtor and creditor attention to sustainable finance. The Chinese government is aware of this issue and has called for high-quality development of the BRI. However, good financial arrangements can only be achieved if there are good financial practices, which means that China has to explore suitable finance models together with host countries and other international financial institutions. Given the relatively weak institutional capacity of many developing countries and the huge institutional and cultural differences between China and host countries, the development of good finance practices in BRI construction may require time, learning, including learning from the experiences of multi-lateral financial institutions, and developing knowledge networks among institutions and scholars in different countries. Anyway, these practices will open up an interesting area of study for geographers.

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